PIMCO

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Investing in Private Credit

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How broad and diverse is the opportunity set in private markets?

Private Credit Sectors

Residential	Commercial	Corporate	Consumer Specialty Finance	Commercial Specialty Finance

Highly Diverse Private Credit Universe

Asset-based vs. cash flow based	Direct origination vs. origination partner	Performing/sub-performing	New origination vs. secondary market	Positioning in capital structure

Distinguishing Characteristics

SOURCE: PIMCO

Refer to Appendix for additional investment strategy and risk information

Risk factors can differ significantly across private credit investments

Sector	Key risk factors
Residential	Home prices Housing affordability Consumer health Operational risks
Commercial	Real estate prices Idiosyncratic credit factors Corporate earnings
Corporate	Corporate earnings Corporate balance sheets GDP growth Idiosyncratic credit factors
Consumer Specialty	Unemployment Wage growth Consumer leverage
Commercial Specialty	Adherence to underwriting standards Idiosyncratic credit factors Servicing expertise

SOURCE: PIMCO
This information is summary in nature and is not intended to be all inclusive.
Refer to Appendix for additional investment strategy and risk information

Key themes driving the current opportunity set

Current Themes

1	2	3
Secular Forces	**Dislocation & Distress**	**Balance Sheet Frictions**
Rise in e-commerce and supply chain evolution	Pressure on sponsors in segments of leisure/office markets	Pullback in capital availability
Increased propensity to work from home	Acute liquidity needs due to upcoming CRE loan maturities	Continued build-up of global NPLs
Changing demographics	Tight bank lending standards	Lending gaps in residential and specialty finance markets

As of 30 June 2021. Source: PIMCO
There is no guarantee that the Fund will launch or, if it does, that it will produce the desired results.
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Refer to Appendix for additional investment strategy, outlook and risk information.

Mapping investment themes to sector views

Residential lending

- Strong housing fundamentals
- Focus on resilient seasoned loans
- New issuance pipeline slower post-COVID

Commercial real estate lending

- Lending opportunities much more attractive post-COVID
- Less competition is driving more lender friendly terms
- Robust pipeline in transitional lending

Specialty finance

- Growing pipeline in secondary opportunities given balance sheet frictions
- Consumer (marketplace, student, auto, receivables)
- Robust asset-based opportunities (SME, aircraft, NPL financing, etc.)

Corporate lending

- Significant levels of dry powder have compressed returns in corporate direct lending
- At the same time, leverage levels have broadly increased as companies sought liquidity to navigate the lockdowns
- Focus on special situations with strong asset coverage

As of 30 June 2021.
Source: PIMCO. **For Illustrative Purposes Only and Subject to Change.** Forecasts, estimates and certain information contained herein are based upon proprietary research and should not be considered as investment advice or a recommendation of any particular security, strategy or investment product. There is no guarantee that results will be achieved.
"Investment categories" represents PIMCO's view of private credit sectors. "Outlook Today" represents PIMCO's current views of opportunities in the categories identified over the next 12-18 months, and are subject to change. In addition, such outlook may be materially different over different time periods.
Refer to Appendix for additional investment strategy, outlook and risk information.

Corporate lending
Capital solutions

Theme: Emphasis on complex situations with high barriers to entry

Investment background

- Given the significant capital formation in middle market direct lending we prefer to focus on more idiosyncratic capital solutions
- Ability to provide solutions for sponsor backed or sponsor-less corporates with bespoke financing needs
- Opportunity set spans primary and secondary transactions across jurisdiction, currency, sector and company size
- Target complex situations with barriers to entry, complexity can be due to any of the following:
  - Structure of the deal
  - Sector bias
  - Size of business

Illustrative Terms	PIMCO Capital Solutions in Private Lending [1]	Middle Market Direct Lending[2]
Issuer size / PE sponsor owned	$25-100mm EBITDA / Typically No	$10-50mm EBITDA / Typically Yes
Capital structure	Typically Senior Secured	Typically Senior Secured
Contractual term	4-5 years	5-7 years
Average coupon	Typically LIBOR + 600-900 bps cash pay	LIBOR + 500-600 bps
Fees/Original Issue Discount	Typically 1-2 points	Typically 1-2 points
Upside features	Upfront fees, exit/prepayment fees & typically equity warrants	Upfront fees
Competition	Limited with deals done on a sole lender basis	Modest to numerous with deals often done in a club

Investment strategy / illustrative transaction

- Opportunity to provide liquidity to counterparties looking to offload private loans in the secondary market
- As an example, we purchased a first lien term loan to the third largest provider of business process outsourcing from a large alternative asset manager's distressed fund
- The company was recapitalized in late 2020 and is currently undergoing a turnaround
- The fund was selling due to cost of capital considerations given strong performance since the loan was originated

As of 30 June 2021. Source: PIMCO. **For illustrative purposes only. Past performance is not a guarantee or a reliable indicator of future results.**

[1] "Capital Solutions" refers to a transaction type for PIMCO. Illustrative Terms for Capital Solutions shown above are based on the characteristics (at the time of underwriting) of this transaction type that exist in PIMCO private funds and were not determined based on a formula or mathematical average. Individual Capital Solutions investments have characteristics materially different than those described above

[2] Represents illustrative terms of representative middle market direct lending issuers reported by S&P Global at the time of underwriting. Individual issuances had characteristics materially different from those described above at underwriting, & their characteristics also may have changed materially & adversely post-underwriting. The terms set forth above reflect PIMCO's views of the characteristics of a representative referenced middle market direct loan issuance (at the time of underwriting), & were not determined based on a formula or mathematical average.

The investment(s) above represents investments made by PIMCO private funds. There can be no guarantee that the investment identified above will achieve positive results. The investment shown above is presented for illustrative purposes only, as a general example of the types of investments that may be acquired by certain PIMCO private funds, as well as PIMCO's capabilities in sourcing, modeling and managing such investments. PIMCO may invest significantly in asset types not referred to in the above. There can be no guarantee that any PIMCO fund will continue to have access to comparable investments, or that PIMCO will continue to utilize similar strategies or techniques in connection with these investments. The information presented herein is as of a specific date, may have changed since such time and is subject to future change. Refer to Appendix for additional investment strategy, outlook, sample investments and risk information.

Corporate lending
Long term partnership

Theme: Leverage PIMCO’s breadth and depth of capital to meet borrowers where they are

Investment background

- PIMCO is one of the largest active fixed income managers globally, managing $2.2 trillion across the risk/return spectrum
- Our breadth and depth of capital allow us to provide financings to companies ranging from mid-market all the way to large cap
- This means that PIMCO has the unique ability to serve as a holistic and long term partner to borrowers through time as they grow from private middle market borrowers to tapping capital markets as IG issuers
- Our business model does not focus on “loan-to-own” strategies but rather emphasizes long-term constructive lending partnerships

Company stock price / market cap since initial financing

Investment strategy / illustrative transaction

- Opportunity to work with borrowers as a holistic capital provider
- As an example, PIMCO originated a loan early in 2020 to an operator and acquirer of franchised businesses
- The company has performed well since the onset of the pandemic due to strong management and in Q1 2021 looked to finance another acquisition and re-finance our loan in the public leveraged loan market
- Given our strong relationship with the borrower we convinced them that having PIMCO provide a thick second lien would help to ensure they could access the market given the strong signal it would send

As of 30 June 2021. Market capitalization shown as of time of underwriting 31 March 2020. Source: PIMCO.
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Commercial real estate lending
Transitional lending

Theme: Post COVID Pullback in Capital Availability

Investment background

- Private transitional CRE lending market has gown exponentially as high quality sponsors seek flexible funding for an expanding array of transitional projects to adapt to new realities
- Longer trajectory to stabilization may increase the need for bridge lending
- Balance sheet and liquidity pressures persist as mortgage REITs, dedicated CRE debt funds and other participants face constraints due to operating and liquidity impairments
- Increasing refinancing needs with ~$2 trillion in pending CRE loan maturities approaching
- Path to recovery remains uncertain for certain sectors and likely to create future episodes of dislocation in public CRE markets

Investment strategy / illustrative transaction

- Redevelopment project in need of financing to re-emerge post-lockdown as a leading hospitality property
- Given PIMCO headquarters' close proximity to property, team leveraged knowledge of local real estate and submarket which is in a top tier area of Southern California that has high barriers to entry and high land values
- Sponsor has invested notable cash equity in the project and owns local properties which it plans to leverage in order to capture limited demand and cross-sell for incremental demand
- Sponsor's business plan is to capitalize on period of lower demand created by COVID-19 to complete property improvement plan (PIP) and position property as a key luxury hotel in the area post-COVID

As of 30 June 2021. Source: PIMCO. Post the onset of COVID-19 refers to period after February 2020.
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Refer to Appendix for additional investment strategy, outlook, sample investments and risk information.

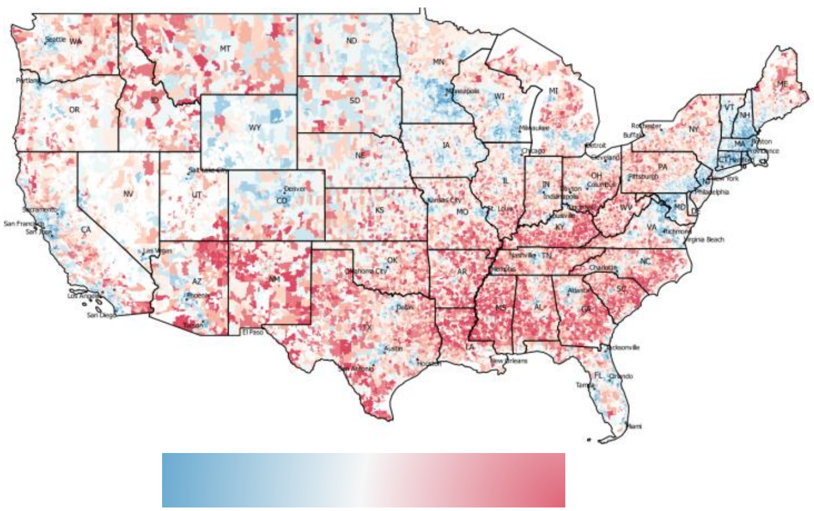
Residential real estate lending
Newly-originated residential loan acquisition

Theme: Continued Pullback in Capital Availability

Investment background

- PIMCO has been active acquiring newly originated non-Qualified mortgage loans with strict criteria to prime borrowers with conservative LTVs
- PIMCO has also been active in other more idiosyncratic forms of new issue residential lending such as bridge loans or 2nd charge mortgage loans
- The U.S. non-QM market is poised for growth driven by strong fundamentals and regulatory / policy changes
- PIMCO has partnered with a variety of originators since 2014 for purchases of non-QM loans
- Valuations today supported by rising homeowner equity over the last decade and improved consumer credit profiles

National geo-score profiling



Highest Geo Scores — Lowest Geo Scores

Investment strategy / illustrative transaction

- Partner with bank and non-bank originators to source forward flow agreement of newly originated residential loans
- Non-QM residential loans generally require a certain amount of seasoning before securitization. Certain PIMCO private funds have the flexibility to hold them in whole loan form on a warehouse line.
- **Illustrative Transaction:** PIMCO recently sourced ~$84mm of newly issued Non-QM loans with an average FICO of 725, weighted average coupon of 6.21% and a Loan to Value (BPO) of 66%. Due to its high FICO scores and low LTVs, we believe these types of positions offer resilient returns across a range of economic scenarios.

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Appendix

Past performance is not a guarantee or a reliable indicator of future results.

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INDEX
It is not possible to invest directly in an unmanaged index.

INVESTMENT STRATEGY
There is no guarantee that these investment strategies will work under all market conditions or are appropriate for all investors and each investor should evaluate their ability to invest long-term, especially during periods of downturn in the market. Investors should consult their investment professional prior to making an investment decision.

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RISK
Investments in residential/commercial mortgage loans and commercial real estate debt are subject to risks that include prepayment, delinquency, foreclosure, risks of loss, servicing risks and adverse regulatory developments, which risks may be heightened in the case of non-performing loans. There is also exposure to such risks through investments in **mortgage and asset-backed securities**, which are highly complex instruments that may be sensitive to changes in interest rates and subject to early repayment risk. **Structured products** such as **collateralized debt obligations (CDOs)** are also highly complex instruments, typically involving a high degree of risk; use of these instruments may involve derivative instruments that could lose more than the principal amount invested. **Private credit** involves an investment in non-publically traded securities which may be subject to illiquidity risk. Portfolios that invest in private credit may be leveraged and may engage in speculative investment practices that increase the risk of investment loss. **Private Credit funds** may also be subject to real estate- related risks, which include new regulatory or legislative developments, the attractiveness and location of properties, the financial condition of tenants, potential liability under environmental and other laws, as well as natural disasters and other factors beyond the fund's control. **Equity investments** may decline in value due to both real and perceived general market, economic and industry conditions, while debt investments are subject to credit, interest rate and other risks.

Investing in the **bond market** is subject to certain risks including market, interest-rate, issuer, credit, and inflation risk. **Bank loans** are often less liquid than other types of debt instruments and general market and financial conditions may affect the prepayment of bank loans, as such the prepayments cannot be predicted with accuracy. There is no assurance that the liquidation of any collateral from a secured bank loan would satisfy the borrower's obligation, or that such collateral could be liquidated. **Collateralized Loan Obligations (CLOs)** may involve a high degree of risk and are intended for sale to qualified investors only. Investors may lose some or all of the investment and there may be periods where no cash flow distributions are received. CLOs are exposed to risks such as credit, default, liquidity, management, volatility, interest rate, and credit risk. **Commodities** contain heightened risk including market, political, regulatory, and natural conditions, and may not be appropriate for all investors. Investing in **distressed loans and bankrupt companies** are speculative and the repayment of default obligations contains significant uncertainties. Investing in **foreign denominated and/or domiciled securities** may involve heightened risk due to currency fluctuations, and economic and political risks, which may be enhanced in emerging markets. **High-yield, lower-rated, securities** involve greater risk than higher-rated securities; portfolios that invest in them may be subject to greater levels of credit and liquidity risk than portfolios that do not. **Mortgage and asset-backed securities** may be sensitive to changes in interest rates, subject to early repayment risk, and while generally supported by a government, government-agency or private guarantor there is no assurance that the guarantor will meet its obligations. **Derivatives** may involve certain costs and risks such as liquidity, interest rate, market, credit, management and the risk that a position could not be closed when most advantageous. Investing in derivatives could lose more than the amount invested. The current regulatory climate is uncertain and rapidly evolving, and future developments could adversely affect a portfolio and its investments.

Appendix

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